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MAKE-BELIEVE INSURANCE

by Frank Chodorov

The argument was entitled Soak the Poor; it appeared in HUMAN EVENTS (May 4, 1949). The gist of it was that the income tax (Sixteenth Amendment) was eased into our economy with a "soak the rich" slogan, but has turned out to be an instrument for soaking the poor, precisely because there are more poor than rich and the nation's pay envelope yields more to tapping than do the combined incomes of the affluent.

Since those who live by wages constitute the largest segment of the electorate, political exigency made it necessary to sugar-coat the taxing of their incomes. This was accomplished with the fiction of "social security". It was -- and still is -- argued that the percentage deducted from the pay envelope is not exactly a tax, a levy exacted to meet the expenses of government, but is like a premium paid in on an annuity policy. That is, "social security" was likened to, and is believed to be, insurance against the hazards of old age.

I pointed out that this analogy is a false one; that the deductions are not set aside (or so invested as to yield an income) to meet the contractual obligations of an insurance policy. The receipts from "social insurance" taxation are dumped into the funds of the U. S. Treasury, where they become available without restriction for any expenditure the government may decide upon. Payments made to the aged do not come from any reserve set aside for this purpose, nor from the earnings from investments in productive enterprise, but from new taxes, levied on current production. It is from the pay roll of the new generation that the pensions come, not from the compulsory "savings" of beneficiaries.

II

This latter point was attacked by a reader of HUMAN EVENTS. It is an exaggeration, he maintained. His criticism is not without point, for technically the "social security" receipts are not channeled directly into the coffers of the Treasury. The Social Security Administration receives the money and then "loans" it to the Treasury in exchange for government bonds. As a bondholder, the SSA receives interest (just like any private bondholder) and it is out of this "income" that payments are made to the beneficiaries, or so the official assertion argues. If more money is needed to meet the contractual obligations, bonds are sold back to the Treasury.

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It is on this flimsy pretense that the practices of the SSA are compared with that of an insurance company. By separating the Treasury into two departments, and giving the offshoot a ledger of its own, it is assumed that a new business is born, whereas, in fact, the arrangement is not unlike the taking in of one another's washing.

If an insurance company did what the government is doing, if it issued bonds against anticipated premiums, and out of the new premiums paid itself "interest" on its own bonds, and then met its policy obligations from such "income", the directors would be guilty of a felony. If, furthermore, the private company sold its own bonds to itself -- well, how can one distinguish between this sort of "insurance" and the old Ponzi scheme?

That this bookkeeping "insurance" should be accepted as the real thing by men of intelligence simply proves the effectiveness of unresisted governmental propaganda, or possibly the limitless power of self-delusion. The reality of the matter was put thus by Godfrey N. Nelson, in the New York Times (May 8):

> ". . . the Treasury is the only real party to the transaction; it assesses and collects the tax, and issues its own obligations therefor. When it needs the money represented by bonds it must either meet such demand out of current funds -- tax receipts -- or raise the money again by the sale of bonds."

An even better description of this business comes from Alice in Wonderland: "I'll be judge, I'll be jury, said cunning old Fury: I'll try the whole cause, and condemn you to death."

III

The principal difference between real insurance and the make-believe kind indulged in by the government lies in the fact that an insurance company, like any financial institution, depends on production for a considerable part of its revenues, while the only income of the government is taxation. To put it another way, the insurance company is a maker, while the government is, and can only be, a taker.

After putting aside that part of the premium receipts which actuarial experience has shown to be sufficient to meet its forseeable contractual obligations, the company puts the residue into productive enterprise. Its income -- whether for operating expenses, profits for stockholders or dividends for policy holders -- is derived from mortgages on homes and factories occupied by labor and capital; from wheat grown on farms; from freight and passenger services; from the sale of gas and electricity; and so on. It is out of the increased abundance made possible by its loans to industry that the company derives income.

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Currently, insurance companies are deep in the real estate field as builders (not as mortgagees) of housing projects.

Even in that kind of insurance where the premiums are calculated on actual risk, the income of the company is augmented by investment of the premiums until needed for payments.

Since the SSA cannot engage in such operations, even its pay roll must be met by taxes -- and no kind of verbal legerdemain can change a tax into an insurance premium.

But, it is maintained, much of the income of an insurance company does in fact come from government bonds, and to that extent there is a similarity between it and the SSA. One cannot deny that as a bondholder the insurance company is not furthering productive enterprise, for every government bond is only a lien on the taxing power of the government; the bondholder is a tax-collector, once removed. But, the bonds it holds do not make the company a department of government. Its bonds are contracts with the government, not with itself.

Even if all the assets of an insurance company consisted of government bonds, its character would still not be that of the SSA; for it would continue to be a private institution dealing with the government on behalf of its policy holders and stockholders, not an agency of the government which issued the bonds. Of course, if we should get around to nationalizing insurance companies, thus making premiums available for governmental appropriations, that would be the end of insurance.

Since the war, insurance companies have been inclined to shift their assets from tax-secured paper (at one time amounting to over 60 per cent of their portfolios) to business securities and real estate operations. Apparently, the directors recognize that income from production has advantages over tax-collecting, not the least of which is a larger return per dollar invested. At any rate, such a shift is not possible for the SSA; it has no other recourse than to "invest" its premiums in the bonds which in effect are issued by itself.

Thus, by whatever criterion we apply to it, the analogy between "social security" taxes and insurance premiums is factitious. One is a form of capital dissipation; the other, at least potential accumulation.

IV

It is estimated that the "Old Age and Survivors Trust Fund" -- the debit on the books of the Treasury representing its "borrowings" from SSA -- will eventually reach the fantastic sum of $50 billion.

This brings up an interesting question. Recently Mr. Truman called for an increase in "social security" taxes, ostensibly to cover proposed

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additional benefits. It would seem to be sound business (as well as wise politics) to distribute some of this accumulating fund in the form of benefits, without an increase in taxation. Can it be that the call for higher pay roll taxation is prompted by the prospective deficit of the Treasury, due to Fair Deal spending, and that the additional benefits are only additional soporifics?

It may be, as some actuaries maintain, that in due time the fifty billions will be needed to meet the obligations under the social security law; the Trust Fund must therefore be kept intact. If that is so, one must ask how the Treasury will raise the money to buy back this pile of bonds, or any considerable part of it, when the need arises. The money "borrowed" from the Trust Fund will long have been spent, and the Treasury will consequently be faced with a fiscal problem of truly staggering proportions.

Let us say that the SSA finds itself in need of only $5 billion, some year in the future. Will the Treasury be forced to ask for that much in taxation, in addition to the regular load -- now amounting to 30 per cent of our national income? How much additional taxation can our economy stand before it breaks down completely? It is horrendous to contemplate the effect of dumping the entire $50 billion worth of bonds on the taxpayer, even over a period of ten years.

The usual practice of the government is to issue new paper to meet maturing obligations. Even during war, when patriotic fervor favors the undertaking, the floating of a $5 billion loan is a major task. Can it be done in peacetime? Can it be repeated year after year? One wonders whether in its extremity, the government will not resort to compelling financial institutions to take its paper, which is tantamount to the confiscation of property.

Finally, there is the ultimate avenue of repudiation by inflation. While the prospect of such a desperate step is distasteful to contemplate, both for its immorality and its economic results, it cannot be ignored. The Treasury has never before been compelled to meet so monstrous an obligation. It has, however, learned how to debase currency.

But, whether the Treasury resorts to taxation, refinancing or repudiation, it will be acting as a sovereign government, not as an insurance company. All that an insurance company could do, if forced into a similar position, would be to file a petition in bankruptcy.

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Not Merely Gossip *A Supplement to Human Events* Vol. VI, No. 25

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By Frank C. Hanighen June 22, 1949

TRUMAN AND "HYSTERIA": The President at his press conference on June 16 used the word "hysteria" to describe public reaction to trials and investigations concerned with Communist activities. So numbed by the situation were most of the commentators that few of them noted the following anomaly: on the same day that the President uttered this gem, a striking example of espionage was proved beyond doubt in court. Henry Julian Wadleigh, former State Department official, told the jury in the Hiss trial that he had given secret documents to Whittaker Chambers and another Communist agent for transmission to Russia. To further understand the preposterousness of Truman's statement, it is only necessary to realize that Mr. Truman's own Department of Justice brought the three outstanding current trials involving alleged Communist activities, as follows: the trials of Hiss, Coplon and the 12 Communist Party leaders. If all these cause hysterical manifestations of a "Red scare", then the Truman Administration is itself responsible.

Hysteria does exist, but it is not the kind mentioned by Mr. Truman. It is not a hysteria of "Red-baiters", nor "headline-hunters", but one composed of various elements: of "nervous Nellies"; of some who fancy they see a threat to civil liberties where there is none; of some who actually have guilty consciences; and finally of New Dealers who fear they may be discredited. These elements, aided by sympathizers in the press and radio, seize upon any pretext to attack very proper investigations and court cases.

There have been several examples of this phenomenon in the past few weeks. One was the attempt to concoct a full-size scandal out of an alleged classification of TVA Chairman Clapp as a "subversive". When the dust settled, it was clear that the Army authorities had never labelled him as such. They had merely classified him as "unavailable" for service in Germany -- which, of course, as the busy manager of the vast TVA organization he certainly was.

Another example was the alleged "censorship" of textbooks by the House Un-American Activities Committee. Actually, that body never proposed even an investigation of textbooks, much less a censorship; and those who set up a cry of "witch-hunting" should have known that no Congressional committee has any power to censor anything. The fact is that the Committee, in answer to a demand of the Sons of the American Revolution for a probe, sought a routine check to see if an investigation was justified. Yet profound editorial writers, righteous college presidents and other educators roundly condemned the House group for things it never tried to do. Judge Wood, its chairman, was well justified in asking: "What's all the shouting about?" There is some ironic humor in the fact that this body has really been a "dead committee" ever since the Administration purged it and throttled its activities last January; it is the least likely of any on the Hill to investigate any important matter.

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COLLEGES AND HYSTERIA: Indeed, some college presidents seem to have got themselves into a fine mess. On June 8, a group of prominent education advisers -- including President Eisenhower of Columbia and President Conant of Harvard -- said that Communists should be excluded from employment as teachers. Although we personally agree with this stand, we were surprised that this very drastic pronouncement, involving academic freedom, met with virtually no criticism. Apparently once an Eisenhower or Conant hath spoken, let no lesser fry speak up in opposition. Yet

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Chairman Wood of the House Un-American Activities Committee, who on the same day said he was starting merely a routine check on college textbooks, received a volume of hysterical abuse.

Also, a whole dump truck full of brickbats alighted on the head of one Frank B. Ober, a Maryland legislator noted for his bill to curb the fifth column in the Maryland Free State. We are not concerned here with Ober's bill, but rather the unmerited criticism which he received merely because he took Conant at his word. Ober wanted Harvard to go into the alleged fellow traveller complexion of some Harvard faculty members, who -- Heaven knows -- had done enough to justify suspicion. Yet representatives appointed by Conant to answer Ober replied that they would not even seek to find out if any Harvard faculty members are Communists or not. Now, just exactly where does President Conant of Harvard stand?

As a matter of fact where do other American college presidents stand? The fact is that a college president has a duty to select and appoint members of his faculty only after careful investigation. It is clear that a large number have failed in this duty, thereby permitting an influx of subversive characters who, as the group of which Conant was a member said, "should be excluded from employment as teachers". Not only have many college presidents neglected careful screening of faculty members before admission, but they have also failed to scrutnize new faculty members in their probationary period of teaching. It is well known that once a faculty member stays on the staff for about five years (when "academic tenure" is established), he is rarely or ever dismissed. This situation illustrates one of the major defects of our colleges -- and Conant's now-you-see-me-now-you-don't position as above described suggests that the educators still have not learned this lesson.

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FBI: In the President's press conference there was something that was not exactly funny -- something that had no farcical overtones such as his definition of hysteria, or clumsy attempt to draw a parallel with the Alien-and-Sedition laws of 1798. We refer to his conspicuous reluctance to say something favorable about the FBI and his refusal to say that he had confidence in J. Edgar Hoover. Now there have been many times when the charge against Hoover of "headline hunting" may have been deserved; he's not exactly modest about his achievements in combatting crime. But that cannot be said of his handling of subversive investigations in recent years. Indeed, the FBI preferred to drop the Coplon case rather than to receive headlines about the sensational information extracted from Miss Coplon's purse. In subversive matters, Hoover has been on the whole a good and discreet policeman. No, Mr. Truman's chillness towards the FBI chief was based on other grounds.

The fact is that, without any political motive, Hoover has stepped on the political corns of the Fair Deal Administration. In mere routine work on subversives and in assistance to public prosecutors, Hoover has incurred the ire of an Administration that wants to cover up its shortcomings. Hence, the Truman attitude, as well as the demands by Fair Deal columnists for an investigation of the FBI. In short, the Fair Deal wants to replace Mr. Hoover, and if possible to infiltrate and dilute his corps of investigators. Such a desire is only logical. In European States where some parliamentary government remained, the Communists always sought to obtain, by some parliamentary bargaining, the cabinet post concerned with internal security. With that lever they could remove many obstacles to full seizure of power. It is not straining parallels to regard the Socialist government of Truman, on the course it has set towards totalitarianism, as seeking complete control and politicalization of the police agency which has embarrassed it. It remains to be seen whether Congress will perceive the danger and will prevent the destruction of our non-political Federal police system.

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RESETTLEMENT: On Capitol Hill, there is under consideration a really "bold, new program" which may well alleviate one of the most difficult ailments of Central Europe. The House on Tuesday passed a resolution authorizing a study of ways and means to solve the problem of resettling some of the over 10 million "expellees" now in Western Germany and Austria, the unfortunate people of German race ousted from their homes in Czechoslovakia, Poland and Eastern portions of the old Reich. It was encouraging to see the prominent Administration leader, Representative Walter, collaborating with Republican Representative Clarence Brown in the passage of this resolution. A sub-committee of investigation will set forth in August for Germany. But it should be emphasized that this will be no junket of vacationing Congressmen, and that the resolution is much more than an expression of a pious wish. Behind the whole affair a very definite and practical plan is forming.

The project is the result of conferences between Congressman Walter and Mr. John J. McCloy, late President of the World Bank, soon to take up his duties as United States High Commissioner in Germany. McCloy has a special interest in finding some means for lightening the burden which this mass of "expellees" imposes on Germany and which will be no lighter as unemployment grows. The plan is this: the transfer of at least several million of these displaced persons to Argentina, Australia and Brazil, three countries which have shown a disposition to receive them. The governments of these countries have long wanted large numbers of manual workers to develop great tracts of their territories. McCloy has reportedly suggested that the World Bank might properly finance the transfer and installation of these refugees to new homes. Presumably, the recipient countries would repay the loan through revenues realized from the resultant agricultural and industrial development. Additionally, American business would profit by sale of agricultural machinery and building materials for the new colonies whose members, it is planned, would be transported by American shipping lines.

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CIVIL RIGHTS! Organizations demanding full civil rights abound in the U.S. and one should not discount their power nor the undoubtedly altruistic aims of many of their supporters. The Federal system, however, limits the extent of their power to enforce such demands, at least until some Federal legislation makes observance mandatory. However, the scope of civil rights need not be limited in the case of territories abroad occupied by our military government. The Defense Secretary has power to abolish infringements of civil rights in Germany and Japan without any delay. Yet we have never remarked that any of the organizations calling for civil rights have petitioned for abolition of these practices in Germany. Freda Utley, in her interesting book, The High Cost of Vengeance, records how depressing it was "to find that in Nuremberg, where Hitler first promulgated his racial laws, our Jim Crow regulations should be most in evidence".

"Lest any person of inferior race", reports Miss Utley, "should dare to pass the portals of the Grand Hotel, which we have taken over for our exclusive use, notices have been posted outside forbidding the entry of Germans, DP's and dogs. 'Anyone violating the above', it is written, 'will be booked by the Military Police for proper disciplinary action. Recently a line has been added in small red letters at the bottom, saying that it is possible to obtain a guest card admitting Germans and displaced persons by applying to the officer on duty at the billeting office further along the street. However, any German permitted to enter the hotel by special dispensation is continually reminded of his inferior status. On the wine list in the bar, for instance, there is a printed list of instructions concerning the correct behavior of Americans toward what Kipling called 'the lesser breeds without the law.'"

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Book Events

Nineteen Eighty Four, by George Orwell. New York: Harcourt, Brace and Company. $3.00. Reviewed by J. M. Lalley.

This grim and prophetic novel is not from a purely artistic point of view quite as successful as Mr. Orwell's satirical allegory of Communist Russia, called Animal Farm, which was in a sense independent of its own moral and thus made an enjoyable fable for children ignorant of its political and historical implications. This time, however, Mr. Orwell's purpose is not to amuse but to frighten; the book is, in short, a warning of what is being prepared for us by the collaboration of technology, psychological science and the politics of power. The purpose is achieved despite a certain crudeness of characterization and clumsiness of narration, because our private and half-conscious fears of the future are confirmed in Mr. Orwell's vision of the world that lies but 35 years ahead. Indeed it is even closer than that, for by our author's calculation the anticipated atomic war will occur in the early 1950s. A decade hence the long cycle of revolutions and counter-revolutions will have ended, and the Twentieth Century Police State, having passed through its Communist, Fascist and neo-Socialist phases, will have completed its teleological evolution. The ideologies will have vanished and the whole purpose of the State will be to perpetuate its control at every moment of every day over the bodies, minds and emotions of every human being within the orbit of its power. Progress, as we understand the word, will have ceased, property will have been abolished, civilization will have become a universal slum. The State will have solved the economic problem by the continuous destruction of wealth in a perpetual war in which there can be neither victory nor defeat. Disaffection and discontent will have been made impossible by the annihilation of private life and by the scientific and systematic destruction of language and of the categories of rational thought.

In such a society, designated as Ingsoc, which is Newspeak for English Socialism, Mr. Orwell's hero is an almost incredible anachronism and therefore marked for destruction. He is a member of the "outer party", the middle of the three estates into which the Society has been stratified. He is employed in the Ministry of Truth and his job is to assist in the continuous falsification of books, newspaper files and other records to make them conform to the ever-changing doctrines decreed by the State. But all records earlier than 1960 have been destroyed; thus the State has even succeeded in abolishing the past, so that the populace, having no means of comparison, must remain ignorant of its misery and oppression. Like every other member of the party Winston is subject, whether awake or asleep, to the 24-hour televisionary scrutiny of the diabolic Thought Police of the Ministry of Love, who watch for any gesture, posture, facial expression, or manner of breathing that might betray some inner tension or conflict. Yet Winston is really guilty of the ultimate in treasonable conduct known as thoughtcrime. His work, and some faint memories of his early childhood in the era of famine and civil war, have inspired him with an unholy curiosity about what the world was like before the party consolidated its power and have implanted the suspicion that it must have been somehow better.

Mr. Orwell does not make clear at what point the Thought Police become aware of Winston's psychic treason, or of his clandestine love affair that is contrary to all party rules. But as part of the elaborate trap they have laid for him he is encouraged to believe in the existence of an underground opposition within the party and to seek contact with its members. His punishment is the total destruction of his personality, will and humanity, and the methods employed to this end, and which seem to have benefited from current practices in psychotherapy, provide the most terrible and yet most plausible part of the tale; for with all his imaginative ingenuity Mr. Orwell does not make them very different from today's actualities.

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